



**Gardner | Provenzano
Schauman & Thomas**

CERTIFIED PUBLIC ACCOUNTANTS

HEART ACADEMY

**Financial Statements
June 30, 2008**

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Gardner | Provenzano Schauman & Thomas

CERTIFIED PUBLIC ACCOUNTANTS

Frederick C. Gardner
Giacamo Provenzano
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INDEPENDENT AUDITOR'S REPORT

August 28, 2008

To the Board of Directors
HEART Academy

We have audited the accompanying financial statements of the governmental activities of HEART Academy, as of and for the year ended June 30, 2008, which comprise the Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of HEART Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the HEART Academy as of June 30, 2008, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

To the Board of Directors
HEART Academy
Page Two

In accordance with *Government Auditing Standards*, we have also issued our report dated August 28, 2008, on our consideration of HEART Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Gardner, Provenzano, Schauman & Thomas, P.C.

Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

HEART ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Introduction

This section of the annual financial report presents management's discussion and analysis of HEART Academy's financial results for the fiscal year ended June 30, 2008. Please read this along with the financial statements that follow for a comprehensive understanding of the financial position of the Academy.

Using This Report

The annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the Academy as a whole (government-wide statements) and also in more detail (governmental fund statements) showing the year's activity by fund.

Academy Wide Financial Statements

The Academy Wide Financial Statements appear first and report all assets and liabilities using the accrual basis of accounting, similar to the accounting method used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The statement of activities covers all of the Academy's services including instruction and support services which are financed through Unrestricted State Aid and State and Federal grants. In addition, revenue less expense results in net assets, which can either, increase or decrease on an annual basis.

Fund Financial Statements

The Fund Financial Statements are reported on a modified accrual basis and are formatted to comply with the legal requirements of the Michigan Department of Education's Accounting Manual. The Academy uses funds to help control and manage money for specific purposes or to meet legal responsibilities for certain grants. Funds provide a detailed short-term view of the operations and services of the Academy, show how money flows through and out of funds, and the balances left at year-end. Reviewing the funds helps the reader consider whether the Academy is accountable for the resources taxpayers and others provide and gives insight into the Academy's overall financial health.

The relationship between governmental activities (Academy Wide Financial Statements) and governmental fund activities (Fund Financial Statements) will be reconciled later in the report.

HEART ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Agency and Trust Accounts

The Academy acts as a trustee for various student activity funds. These net assets are excluded from the Academy's other financial statements since these assets cannot be used to finance any of the Academy's operations. The Academy's responsibility is to assure that the reported assets are used for their intended purpose.

Condensed Financial Statements

Analysis of Overall Financial Position and Results of Operations

The table below provides a summary of the Academy's net assets as of June 30, 2008 and 2007.

Assets	2008	2007
Current and other assets	\$ 515,288	\$ 539,330
Capital assets-net of accumulated depreciation	36,212	51,926
Total assets	<u>551,500</u>	<u>591,256</u>
Liabilities		
Current liabilities	484,926	645,547
Long-term liabilities	294,093	-
Total liabilities	<u>779,019</u>	<u>645,547</u>
Net assets		
Invested in capital assets-net of related debt	(291,493)	(309,182)
Unrestricted	63,974	254,891
Total Net Assets	<u>\$ (227,519)</u>	<u>\$ (54,291)</u>

The Academy's net assets were \$(227,519) at June 30, 2008. Capital assets, net of related debt \$(291,493), compares the original cost, less depreciation of the Academy's capital assets to long-term debt used to finance the acquisition of those assets. The debt on the capital assets will be paid from the general fund revenue as the debt comes due. The remaining amount of net assets, \$63,974, is unrestricted and represents the accumulation of all past years' operations. The unrestricted net assets balance enables the Academy to meet working capital and cash flow requirements. The operating results of the general fund will have a significant impact on the change in unrestricted net assets from year to year.

HEART ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Analysis of Overall Financial Position and Results of Operations (cont.)

The Academy results of operations for 2008 and 2007 are reported below.

	<u>2008</u>	<u>2007</u>
Revenue		
Program revenue		
Grants and contributions	\$ 250,682	\$ 190,957
Charges for services	5,190	2,189
General revenue		
State foundation allowance	1,560,630	1,673,977
Other	15,180	8,875
Total revenue	<u>1,831,682</u>	<u>1,875,998</u>
Function-Program expenses		
Instruction	1,009,202	958,564
Support services	934,852	963,709
Food service	25,824	15,131
Interest on long-term debt	19,318	18,887
Depreciation (unallocated)	15,714	96,744
Total expense	<u>2,004,910</u>	<u>2,053,035</u>
Increase (decrease) in Net Assets	<u>\$ (173,228)</u>	<u>\$ (177,037)</u>

The State foundation allowance decreased from 2007 by \$113,367 as a result of the decrease in enrollment. Even with increased expense for purchased instructional services (related to increases in salary and benefit cost) and the loss from the lunch program (although less than the previous year), total expense decreased by \$48,125. The decreased revenue and expense were not able to offset each other resulting in an overall decrease of \$173,228 in net assets for the year ended June 30, 2008.

Budget Highlights

HEART Academy's budget was developed according to the Uniform Budget Act of the State of Michigan requirements. The Act requires that the original budget for the upcoming fiscal year be approved prior to July 1, the start of the fiscal year. As a matter of practice the HEART Academy Board of Directors amends its budget twice during the school year. During the fiscal year ended June 30, 2008, the Academy amended the budget on February 19, 2008 and June 19, 2008.

	<u>Original</u>	<u>Final</u>	<u>Variance</u>	<u>Actual</u>	<u>Variance</u>
Total Revenue	\$ 1,881,462	\$ 1,812,438	-3.67%	\$ 1,807,629	-0.27%
Total Expenditures	2,059,863	2,015,388	-2.16%	1,996,775	-0.92%
Excess Revenue/Expenditures	(178,401)	(202,950)	13.76%	(189,146)	-6.80%

**HEART ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

Budget Highlights (cont.)

Changes to the original General Fund budget were as follows:

- When establishing the 2007/2008 revenue budget only estimates could be used, as there were a number of State and Federal budget factors that had not yet been determined. These factors included the uncertainty of per pupil funding, reductions or possible elimination of specific categoricals and grants. State funding was primarily lower due to decreased enrollment (unrestricted and vocational) from the previous year. This accounts for the revenue variance between original and final budget.
- "Purchased Service" expenditures for instructional staff salary/benefits and technology support increased significantly from the previous year. Although enrollment was lower than anticipated, they were not significant enough to decrease faculty. In addition, a part-time guidance counselor was added to facilitate post-secondary acceptance and scholarship awards.

Final vs Actual Budget

- Management believes that the final budget to actual results variances were not significant.

General Fund

The General Fund is the primary operating fund for the Academy. For fiscal year ending June 30, 2008, the fund decreased by \$189,146. The reason for the decrease was basically a decrease in student enrollment, while the Academy attempted to maintain programs.

Food Service Fund

The Academy maintained the school lunch program for the fiscal year. While various attempts were made to increase utilization of the program, efforts were not successful with the resulting loss of \$1,771.

Debt Service Fund

The Academy's debt service fund is used to pay the principal and interest on an existing loan from Comerica Bank. This loan was previously secured to pay for building improvements to meet State building code requirements.

**HEART ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

Debt Service Fund (continued)

Long-Term Debt	June 30, 2008	June 30, 2007
Renovation Loan - Comerica	\$ 327,705	\$ 361,108
Total	<u>\$ 327,705</u>	<u>\$ 361,108</u>
Debt Reduction	June 30, 2008	June 30, 2007
Renovation Loan - Comerica	\$ 369,511	\$ 30,558
Total	<u>\$ 369,511</u>	<u>\$ 30,558</u>

The outstanding principal balance of \$336,108 was paid on March 25, 2008 through a refinancing process with Comerica Bank. Commencing April 1, 2008, payments of principal and interest under the terms of the new note began. The maturity date of the loan was extended from March 31, 2008 through March 31, 2013.

Capital Assets

As of June 30, 2008, the Academy has \$36,212 in capital assets including leasehold improvements, and furniture and equipment, less depreciation.

	2008	2007
Leasehold Improvements	\$ 463,031	\$ 463,031
Equipment and Furniture	57,697	57,697
Total Capital Assets	520,728	520,728
Less Accumulated Depreciation	(484,516)	(468,802)
Net Capital Assets	<u>\$ 36,212</u>	<u>\$ 51,926</u>

Leasehold improvements have been depreciated over the life of this lease resulting in a higher than average depreciation expense and lower net capital assets.

Conditions Affecting Next Year's Budget

The State and Federal economy will have a direct impact on both funding and cost for services in the upcoming school year. While school funding for the 08/09 school year has not yet been determined, it is anticipated that some type of increase will be approved. This increase will not be in step with the rising cost of supplies and materials that are needed to maintain the educational environment for our students. As with all schools across the State, HEART Academy will be challenged to find private sources of revenue to supplement state and federal funding for the educational programs that are provided.

HEART ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Requests for Information

This report is designed to provide our stakeholders with a general overview of the Academy's finances. If you have questions about this report or need additional information, contact the Academy Business Office, Synergy Training Solutions, 24535 Jefferson, Saint Clair Shores, MI 48080.

BASIC FINANCIAL STATEMENTS

HEART Academy
Academy Wide
Statement of Net Assets
June 30, 2008

	Governmental Activities
ASSETS	
Cash	\$ 144,452
Receivables	309,014
Prepaid expenses	61,822
Capital assets less accumulated depreciation	36,212
Total Assets	<u>551,500</u>
LIABILITIES	
Current liabilities	
Accounts payable	26,014
Accrued liabilities	8,509
Deferred revenue	12,714
Due to management company	404,077
Renovation Loan	33,612
Long-term Liabilities	
Renovation Loan	294,093
Total Liabilities	<u>779,019</u>
NET ASSETS	
Invested in capital assets net of related debt	(291,493)
Unrestricted	63,974
Total Net Assets	<u>\$ (227,519)</u>

The accompanying notes are an integral part of these financial statements.

HEART Academy
Academy Wide
Statement of Activities
For the Year Ended June 30, 2008

Functions/Programs	Expenses	Program Revenues		Governmental Activities
		Charges for Services	Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
Instruction	\$ 1,009,202	\$ -	\$ 178,499	\$ (830,703)
Support services	934,852	-	53,320	(881,532)
Food service	25,824	5,190	18,863	(1,771)
Interest on long-term debt	19,318	-	-	(19,318)
Depreciation (unallocated)	15,714	-	-	(15,714)
Totals	<u>\$ 2,004,910</u>	<u>\$ 5,190</u>	<u>\$ 250,682</u>	<u>(1,749,038)</u>
General revenues:				
State aid - unrestricted				1,560,630
Other				<u>15,180</u>
Total General Revenues				1,575,810
Change in Net Assets				(173,228)
Net Assets - Beginning of Year				(54,291)
Net Assets - End of Year				<u>\$ (227,519)</u>

The accompanying notes are an integral part of these financial statements.

HEART Academy
Governmental Funds
Balance Sheet
June 30, 2008

	General Fund	Debt Service	Food Service	Totals (Memorandum Only)
<u>Assets</u>				
Cash	\$ 144,452	\$ -	\$ -	\$ 144,452
Due from other governmental units	309,014	-	-	309,014
Due from other funds	12,559	-	-	12,559
Prepaid expenditures	61,822	-	-	61,822
Total Assets	<u>\$ 527,847</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 527,847</u>
<u>Liabilities and Fund Balance</u>				
Liabilities				
Accounts payable	\$ 26,014	\$ -	\$ -	\$ 26,014
Accrued expenditures	8,509	-	-	8,509
Due to other funds	-	-	12,559	12,559
Deferred revenue	12,714	-	-	12,714
Due to management company	404,077	-	-	404,077
Total Liabilities	<u>451,314</u>	<u>-</u>	<u>12,559</u>	<u>463,873</u>
Fund Balance				
Unreserved and undesignated	76,533	-	(12,559)	63,974
Total Fund Balance	<u>76,533</u>	<u>-</u>	<u>(12,559)</u>	<u>63,974</u>
Total Liabilities and Fund Balance	<u>\$ 527,847</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 527,847</u>

The accompanying notes are an integral part of these financial statements.

HEART Academy
Reconciliation of Balance Sheet of Governmental Funds To Net Assets
June 30, 2008

Total Fund Balances - Governmental Funds	\$ 63,974
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds.	
The cost of the capital assets is	520,728
Accumulated depreciation is	(484,516)
Long-term liabilities are not due and payable in the current period and are not reported in the funds:	
Renovation Loan	(327,705)
Total Net Assets - Governmental Activities (Academy Wide)	<u>\$ (227,519)</u>

The accompanying notes are an integral part of these financial statements.

HEART Academy
Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balances
For the Year Ended June 30, 2008

Revenue	General	Debt Service	Food Service	Totals (Memorandum Only)
Local	\$ 15,180	\$ -	\$ 5,190	\$ 20,370
State	1,679,267	-	1,586	1,680,853
Federal	113,182	-	17,277	130,459
Total revenue	<u>1,807,629</u>	<u>-</u>	<u>24,053</u>	<u>1,831,682</u>
Expenditures				
Instruction				
Basic programs	765,503	-	-	765,503
Special education	62,022	-	-	62,022
Compensatory	53,167	-	-	53,167
Career and technical	128,510	-	-	128,510
Support Services				
Guidance services	25,145	-	-	25,145
Social work	16,969	-	-	16,969
Improvement of instruction	51,034	-	-	51,034
Education media services	461	-	-	461
Academic student assessment	1,820	-	-	1,820
General administration	260,475	-	-	260,475
School administration	145,024	-	-	145,024
Other school administration	1,619	-	-	1,619
Fiscal services	7,500	-	-	7,500
Operation and maintenance	410,296	-	-	410,296
Security	335	-	-	335
Central	1,000	-	-	1,000
Support services technology	12,640	-	-	12,640
Pupil accounting	534	-	-	534
Debt service	-	388,829	-	388,829
Food service	-	-	25,824	25,824
Total expenditures	<u>1,944,054</u>	<u>388,829</u>	<u>25,824</u>	<u>2,358,707</u>
Excess (Deficit) of Revenues over Expenditures	(136,425)	(388,829)	(1,771)	(527,025)
Other Financing Sources (Uses)				
Transfer in	-	52,721	-	52,721
Transfer out	(52,721)	-	-	(52,721)
Proceeds from the refinancing of debt	-	336,108	-	336,108
Total Other Financing Sources (Uses)	<u>(52,721)</u>	<u>388,829</u>	<u>-</u>	<u>336,108</u>
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other (Uses)	(189,146)	-	(1,771)	(190,917)
Fund Balance, Beginning	265,679	-	(10,788)	254,891
Fund Balance, Ending	<u>\$ 76,533</u>	<u>\$ -</u>	<u>\$ (12,559)</u>	<u>\$ 63,974</u>

The accompanying notes are an integral part of these financial statements.

HEART Academy
Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2008

Net Change in Fund Balances - Governmental Funds	\$ (190,917)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlay as expenditures; in the statement of activities, these costs are capitalized and depreciated over their estimated useful lives.	
Depreciation expense	(15,714)
Proceeds from the refinancing of long-term debt is an other financing source in governmental funds, but not in the statement of activities	(336,108)
Repayment of loan principal is an expenditure in the governmental funds, but not in the statement of activities	369,511
Change in Net Assets of Governmental Activities (Academy Wide)	<u>\$ (173,228)</u>

The accompanying notes are an integral part of these financial statements.

HEART Academy
Statement of Fiduciary Net Assets
June 30, 2008

Assets	
Cash, student and parent organizations	<u>\$ 10,423</u>
Total Assets	<u>\$ 10,423</u>
Liabilities	
Due to student and parent organizations	<u>\$ 10,423</u>
Total Liabilities	<u>\$ 10,423</u>

The accompanying notes are an integral part of these financial statements.

HEART ACADEMY NOTES TO THE FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies

HEART Academy was formed as a Charter School Academy pursuant to the Michigan School Code of 1976, as amended by Act 362 of the Public Acts of 1993 and Act No. 416 of the Public Acts of 1994. The Academy filed articles of incorporation as a nonprofit corporation pursuant to the provisions of the Michigan Nonprofit Corporation Act of 1982.

In 1997, the Academy entered into a five-year contract with Saginaw Valley State University to charter a public school academy. The contract was extended through June 30, 2010. The contract requires the Academy to act exclusively as a governmental agency and not undertake any action inconsistent with its status as an entity authorized to receive state school aid funds pursuant to the State Constitution. The Saginaw Valley State University Board of Trustees is the fiscal agent for the Academy and is responsible for overseeing the Academy's compliance with the contract and all applicable laws. The Academy pays the Saginaw Valley State University Board of Trustees three percent of state aid as administrative fees. The total administrative fees incurred to the Saginaw Valley State University Board of Trustees for the year ended June 30, 2008, were \$46,814.

Reporting Entity

The accompanying financial statements have been prepared in accordance with criteria established by the GASB for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational and financial relationships that determine which of the governmental organizations are a part of the Academy's reporting entity, and which organizations are legally separate component units of the Academy. The Academy has no component units.

B. Academy-Wide Statements

The statement of net assets and the statement of activities display information about the Academy as a whole. The usual purpose of these statements is to distinguish between activities that are governmental and those that are considered business-type activities. Currently, all activities of the Academy are considered to be governmental.

The Academy-wide statements are prepared using the economic resources measurement focus and the full accrual basis of accounting. This basis is different from the manner in which the governmental fund financial statements are prepared. Therefore reconciliation is included to identify the relationship between the Academy-wide statements and the statements for the governmental funds.

HEART ACADEMY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (continued)

B. Academy-Wide Statements (continued)

The Academy-wide statement of activities presents a comparison between program expenses and program revenues; revenues that are not classified as direct program revenues are presented as general revenues. The comparison of program expenses and revenues identifies the extent to which each program is self-financed or draws resources from the Academy.

The Academy-wide approach is focused more on the sustainability of the Academy as an entity and the change in the Academy's net assets from the current year's activities.

C. Fund Financial Statements

The accounts of the Academy are organized on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. The following fund types are used by the Academy:

Governmental Funds

The governmental fund statements are prepared using the current resources measurement focus and the modified accrual basis of accounting. The fund approach is focused on the currently available resources and changes in the currently available resources of the Academy.

General Fund is the general operating fund of the Academy. It is used to account for all financial resources except those that are required to be accounted for in another fund.

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for a specified purpose. The Special Revenue Fund maintained by the Academy is the Food Service Fund. The Food Service Fund is intended to be self-supporting; however, this year there was a deficit in that fund. The General Fund has ample fund balance to cover this deficit.

Debt Service Funds are used to account for the accumulation of funds for the periodic payment of principal and interest on general long-term debt.

HEART ACADEMY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (continued)

C. Fund Financial Statements (continued)

Fiduciary Funds

Fiduciary funds are used to report assets held in a trustee or agency capacity for others; therefore these funds are not available to support Academy programs.

The emphasis in fund financial statements is on the major funds. The Academy has opted to display information for all funds without regard to the criteria for determination of major funds. The Academy's fiduciary funds are presented in the fiduciary fund financial statements. Since by definition these assets are being held for the benefit of a third party and cannot be used for activities or obligations of the government, these funds are not incorporated in the government-wide statements.

D. Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. Accounting basis relates to the timing of the measurements made regardless of the measurement focus applied.

Full Accrual

The full accrual basis of accounting requires recognition of revenues when earned and expenses when incurred, regardless of the timing of related cash flows. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. This method is used for the Academy-Wide statements.

Modified Accrual

The modified accrual basis recognizes revenues when they are measurable and available, available means collectible within the current period or within 60 days after year-end. Expenditures are still recognized when incurred; however, principal and interest on long-term debt is recognized when payment is due. This method is used for the Fund Level statements.

HEART ACADEMY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (continued)

D. Basis of Accounting (continued)

The most significant difference between the full accrual basis of accounting and the modified accrual basis of accounting is the way in which capital assets and long-term debt are recognized. The full accrual basis of accounting recognizes purchases of capital assets as an asset and long-term debt proceeds as a liability (similar to a for-profit business). The modified accrual basis of accounting recognizes the purchase of capital assets as expenditures and long-term debt proceeds as other revenue sources.

E. Financial Statement Amounts

Cash

Cash includes cash on hand and demand deposits.

Receivables

Receivables consist of all revenues earned at year-end but not yet received.

Prepaid

Prepaid amounts consist of payments for which the Academy will have a future benefit and will be used up at a date beyond the current year-end.

Capital Assets and Depreciation

Capital assets purchased or acquired with an original cost of \$1,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. The Academy does not possess infrastructure type assets.

Depreciation on all assets is provided on the straight-line method over the following estimated useful lives:

Leasehold Improvements	5 years
Furniture and equipment	5-20 years

Leasehold improvements are depreciated over the life of the original lease.

HEART ACADEMY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (continued)

E. Financial Statement Amounts (continued)

Accounts Payable

Accounts payable consist of items from which the Academy benefited during the current fiscal year but has not yet paid.

Accrued Expenses

Accrued expenses consist of the amount due at year end to the Academy's oversight agency for oversight fees.

Due to Management Company

Due to Management Company consist of amounts on contracted employees and administrative fees that are due and payable for the current fiscal year.

Deferred Revenue

Deferred revenue represents amounts for which the Academy has received, but has not yet earned. Deferred revenue is usually caused by the receipt of grant program revenues in excess of expenses/expenditures related to the grant. The revenues are deferred until the proceeds have been fully expensed/expended.

Long-Term Liabilities

In the Academy wide financial statements, long-term debt is reported as a liability in the statement of net assets.

In the fund financial statements, governmental fund types recognize both interest and principal payments as expenditures during the period the payments were made.

Inter-fund Activity

Inter-fund activity is reported as transfers and are eliminated upon consolidation.

HEART ACADEMY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 2--Stewardship, Compliance, and Accountability

The Academy formally adopted a General Fund budget by activity for the year ended June 30, 2008. State law requires the Academy to have its budget in place before July 1. Unexpended appropriations lapse at year-end; encumbrances are not formally recorded.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America. Budgeted amounts presented in the financial statements are amended by the Board of Directors. State law permits Academies to amend their budgets during the year. The budgetary comparison presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. Expenditures in excess of amounts budgeted are a violation of Michigan law.

The Academy's expenditure budget variances are illustrated in the required supplemental information.

NOTE 3--Deposits and Investments

The Academy is authorized, by the State of Michigan, to deposit its funds in banks, savings and loan associations, or credit unions having a principal office in Michigan.

The Academy is also authorized to invest in the following:

- a. Direct bonds and obligations of the U.S. or agency or instrumentality,
- b. CDs, savings accounts with banks, savings and loan associations, or credit unions which are insured with the applicable federal agency,
- c. Commercial paper – within three highest rate classifications by at least two rating services, maturing not later than 270 days,
- d. U.S. or agency repurchase agreements,
- e. Banker's acceptance of U.S. banks, and
- f. Mutual funds – investments which local unit can make directly.

As of year-end, the carrying amount of the Academy deposits was \$144,452 and the bank balance was \$208,355. Agency fund cash was \$10,423. Of the bank balance, \$100,000 was covered by federal depository insurance and \$108,355 was uninsured and un-collateralized. The Academy has not adopted an investment policy and does not hold any investments.

HEART ACADEMY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 4--Capital Assets and Accumulated Depreciation

Capital asset activity of the Academy was as follows:

	Balance July 1, 2007	Additions	Disposals	Balance June 30, 2008
Capital assets subject to depreciation				
Leasehold improvements	\$ 463,031	\$ -	\$ -	\$ 463,031
Equipment and furniture	57,697	-	-	57,697
Total Capital Assets	<u>520,728</u>	<u>-</u>	<u>-</u>	<u>520,728</u>
Accumulated depreciation				
Leasehold improvements	451,455	11,576	-	463,031
Equipment and furniture	17,347	4,138	-	21,485
Total Accumulated Depreciation	<u>468,802</u>	<u>15,714</u>	<u>-</u>	<u>484,516</u>
Total Net Capital Assets	<u>\$ 51,926</u>	<u>\$ (15,714)</u>	<u>\$ -</u>	<u>\$ 36,212</u>

Depreciation was not allocated by function as the Academy considers its capital assets to impact multiple activities and allocation is not practical.

NOTE 5--Long-Term Debt

The Academy's long-term debt includes a bank loan with an original issue amount of \$500,000, bearing an interest rate of 5.37%. Monthly payments were in the amount of \$2,778 of principal and an additional amount for interest as calculated by the bank. The loan is a general fund obligation and will be paid from general fund revenue transferred to the debt service fund. The note had been amortized over 15 years with a maturity date of March 31, 2008. On March 25, 2008, the principal in the amount of \$336,108 was refinanced bearing an interest rate at refinancing of 6% and a rate equal to the prevailing rate of interest plus 3% thereafter. The loan is a general fund obligation and will be paid from general fund revenue transferred to the debt service fund. The note is unsecured but guaranteed by St. John Health. The note has been amortized over ten years with a maturity date of March 31, 2013. The Academy is allowed to transfer up to twenty percent of state aid each year to the debt service fund to service the debt. For the year ended June 30, 2008, the transfer from the general fund to the debt service fund did not exceed twenty percent.

A summary of long-term debt transactions follows:

	Balance June 30, 2007	Additions	Retirements	Balance June 30, 2008	Current Portion
Renovation loan	\$ 361,108	\$ 336,108	\$369,511	\$ 327,705	\$ 33,612
	<u>\$ 361,108</u>	<u>\$ 336,108</u>	<u>\$369,511</u>	<u>\$ 327,705</u>	<u>\$ 33,612</u>

Total interest paid for the year on debt totaled \$19,318.

HEART ACADEMY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 5--Long-Term Debt (continued)

Annual debt service requirements to maturity for the above long-term debt are as follows:

<u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008-2009	\$ 33,612	\$ 18,749	\$ 52,361
2009-2010	33,612	16,783	50,395
2010-2011	33,612	14,739	48,351
2011-2012	33,612	12,727	46,339
2013-2014	193,257	8,188	201,445
	<u>\$ 327,705</u>	<u>\$ 71,186</u>	<u>\$ 398,891</u>

NOTE 6--Risk Management

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The risk of employee injuries and medical benefits for employees of the management company are covered by insurance held by the management company. The Academy has purchased commercial insurance for all other claims.

NOTE 7--Management Contract

The Academy has entered into a management agreement with Synergy Training Solutions, Inc., a for-profit corporation. The management company provides the Academy with all personnel, as well as all Academy management, executive administration, fiscal services, curriculum services and office of the principal.

The amount expensed for the personnel, related benefits, payroll taxes, and fiscal services was \$1,112,270. The amount due the management company at June 30, 2008 was \$404,077.

Management fees are calculated on 10% of all revenues received directly or indirectly, from the State School Aid Act of 1979, from federal aid received by the Academy, and local sources of revenue, but not less than \$245,000. The amount expensed for management fees for the year ended June 30, 2008 was \$205,000. Fees in the amount of \$40,000 were forgiven.

HEART ACADEMY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 8--Lease Commitments

The Academy entered into a lease agreement with an unrelated party in August of 2007 for the period July 2, 2007 through June 30, 2012. the amount expended for the lease for the year ended June 30, 2008 was \$375,261. Rent will be \$31,000 per month for the year ending June 30, 2008 and will increase each July 1 by the same percentage as the state unrestricted per pupil foundation allowance. If the utilities increase by 5% or more from and after the first year of the lease, the lessor reserves the right to increase the monthly lease payment to reflect the increase in cost. Estimated payments for the years ending June 30, 2009 through June 30, 2012 are \$372,000 per year. This estimate will change each year as the foundation allowance changes.

NOTE 9--Total Columns

Total columns on combined statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows in conformity with accounting principles generally accepted in the United States of America; nor is such data comparable to consolidation.

NOTE 10--Inter-Fund Activity

The makeup of inter-fund activity is as follows:

<u>Outgoing Transfer</u>		<u>Incoming Transfer</u>	
General Fund	\$ 52,721	Debt service	\$ 52,721
Total	<u>\$ 52,721</u>	Total	<u>\$ 52,721</u>

The amount transferred from the general fund to the debt service was to cover principal and interest payments.

<u>Due From</u>		<u>Due To</u>	
General Fund	\$ 12,559	Food service	\$ 12,559
Total	<u>\$ 12,559</u>	Total	<u>\$ 12,559</u>

The amount due to the general fund from the food service fund is amount of the food service deficit at June 30, 2008.

**REQUIRED
SUPPLEMENTAL INFORMATION**

HEART Academy
Budgetary Comparison
For the Year Ended June 30, 2008

	General Fund				Food Service			
	Original Budget	Final Budget	Actual	Variance	Original Budget	Final Budget	Actual	Variance
Revenue								
Local	\$ 5,000	\$ 14,406	\$ 15,180	\$ 774	\$ 2,700	\$ 5,190	\$ 5,190	\$ -
State	1,798,317	1,679,369	1,679,257	(102)	1,000	1,586	1,586	-
Federal	78,145	118,663	113,182	(5,481)	15,000	13,843	17,277	3,434
Total Revenues	1,881,462	1,812,438	1,807,629	(4,809)	18,700	20,619	24,053	3,434
Expenditures								
Instruction								
Basic programs	748,246	766,154	765,503	(651)	-	-	-	-
Special education	70,500	70,000	62,022	(7,978)	-	-	-	-
Compensatory	54,969	58,648	53,167	(5,481)	-	-	-	-
Career and technical	131,582	129,630	128,510	(1,120)	-	-	-	-
Support Services								
Guidance services	27,956	25,145	25,145	-	-	-	-	-
Social work	54,374	16,969	16,969	-	-	-	-	-
Improvement of instruction	12,765	52,918	51,034	(1,884)	-	-	-	-
Education media services	-	461	461	-	-	-	-	-
Academic student assessment	3,000	2,000	1,820	(180)	-	-	-	-
General administration	303,056	260,628	260,475	(153)	-	-	-	-
School administration	182,485	144,927	145,024	97	-	-	-	-
Other school administration	1,500	1,500	1,619	119	-	-	-	-
Fiscal services	7,500	7,500	7,500	-	-	-	-	-
Operation and maintenance	400,030	410,952	410,296	(656)	-	-	-	-
Security	500	335	335	-	-	-	-	-
Central	500	1,000	1,000	-	-	-	-	-
Support services technology	6,000	13,250	12,640	(610)	-	-	-	-
Pupil accounting	800	650	534	(116)	-	-	-	-
Food service	-	-	-	-	18,700	21,510	25,824	4,314
Outgoing transfers	54,100	52,721	52,721	-	-	-	-	-
Total Expenditures	2,059,863	2,015,388	1,996,775	(18,613)	18,700	21,510	25,824	4,314
Excess (Deficiency) of Revenues Over Expenditures	(178,401)	(202,950)	(189,146)	13,804	-	(891)	(1,771)	(880)
Fund Balance - Beginning of Year	265,679	265,679	265,679	-	(10,788)	(10,788)	(10,788)	-
Fund Balance - End of Year	\$ 87,278	\$ 62,729	\$ 76,533	\$ 13,804	\$ (10,788)	\$ (11,679)	\$ (12,559)	\$ (880)

ADDITIONAL SUPPLEMENTAL INFORMATION



**Gardner | Provenzano
Schauman & Thomas**

CERTIFIED PUBLIC ACCOUNTANTS

Frederick C. Gardner
Giacamo Provenzano
James R. Schauman
Heather A. Thomas

**REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING
STANDARDS**

August 28, 2008

To the Board of Directors
HEART Academy

We have audited the financial statements of the governmental activities of HEART Academy as of and for the year ended June 30, 2008, which comprise HEART Academy's basic financial statements, and have issued our report thereon dated August 28, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered HEART Academy's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the HEART Academy's internal control over financial. Accordingly, we do not express an opinion on the effectiveness of HEART Academy's internal control over financial reporting.

To the Board of Directors
HEART Academy
Page Two

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects HEART Academy's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of HEART Academy's financial statements that is more than inconsequential will not be prevented or detected by HEART Academy's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by HEART Academy's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance

As part of obtaining reasonable assurance about whether HEART Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors, management, and federal awarding agencies and the pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Gardner, Proulx, Dehaenen & Thummes P.C.

Certified Public Accountants